

Franchise Tax Board**ANALYSIS OF ORIGINAL BILL**

Author: Torrico Analyst: Jennifer Bettencourt Bill Number: AB 2518
Related Bills: See Legislative History Telephone: 845-5163 Introduced Date: February 21, 2008
Attorney: Patrick Kusiak Sponsor: _____

SUBJECT: Northern California Cancer Research Fund

SUMMARY

This bill would create the Northern California Cancer Research Fund and add it to the personal income tax (PIT) return as a voluntary contribution fund.

PURPOSE OF THE BILL

According to the author's staff the purpose of this bill is to help fund research relating to the detection, treatment, and prevention of cancer.

EFFECTIVE/OPERATIVE DATE

This bill would become effective January 1, 2009, and would apply to tax returns filed on or after that date.

POSITION

Pending.

SUMMARY OF SUGGESTED AMENDMENTS

Amendment 1 has been provided to correct a technical error.

ANALYSISSTATE LAW

Current state tax law allows taxpayers to make contributions of their own funds (not tax liability) on their PIT returns to any of the 11 voluntary contribution funds (VCFs) listed on the return.

With the following exceptions, VCFs remain on the PIT return until they are either repealed or fail to meet their minimum contribution amount.

- Except for the California Seniors Special Fund, which has no sunset date, each VCF has a specific sunset date.

Board Position:			Department Director	Date
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- Except for the California Seniors Special Fund, the California Firefighters Memorial Fund, and the California Peace Officer Foundation Memorial Fund, each VCF must meet an initial minimum contribution amount of \$250,000.
- Except for the California Fund for Senior Citizens, the required minimum contribution amount is adjusted annually for inflation for each VCF.

The annual inflation adjustment is based on the percentage change in the California Consumer Price Index. The Franchise Tax Board (FTB) is required to make the following two determinations for each VCF by September 1 of each calendar year:

1. The minimum contribution amount for the next calendar year for the VCF to remain on the PIT return for that calendar year, and
2. Whether estimated contributions to the VCF during the current calendar year will be less than the minimum contribution amount for that calendar year.

FTB is also required to notify certain specified funds in writing of the minimum contribution amount required for the next calendar year.

If FTB estimates that a VCF will fail to meet or exceed the minimum contribution amount for a calendar year, that VCF is repealed effective January 1 of that calendar year.

General voluntary contribution provisions specify the following for all VCFs:

- Any contribution amounts designated prior to a fund's repeal must continue to be transferred and disbursed to that voluntary contribution fund.
- If the designee is unspecified, the contribution amount is transferred to the General Fund after reimbursing costs incurred by the FTB.
- If an individual designates contributions to more than one fund, and the actual amount available is less than the total amount contributed, the contribution would be allocated on a pro rata basis to the designated funds.

The general provisions also provide a formal queuing process for adding new contingent¹ voluntary contribution funds to the tax return. Upon enactment, new contingent funds are added to the tax return when an existing fund is removed or when FTB determines space exists on the income tax return.

THIS BILL

This bill would create the Northern California Cancer Research Fund (Fund) and add it to the PIT return as a voluntary contribution fund. Taxpayers would be able to designate a contribution in excess of the tax liability, if any, to the Fund on their PIT return in full dollar amounts of \$1 or more. Each signatory on a joint return may make the contributions individually.

¹ A contingent voluntary contribution designation is a voluntary contribution fund that includes language that the fund may not be added to the personal income tax return until another voluntary contribution fund is removed.

The designations for any taxable year must be made on the individual's return for the taxable year and, once made, are irrevocable. A deduction, subject to the itemized deduction rules applicable to individuals, would be allowed for a contribution made pursuant to this bill.

The contributions to the Fund allocated to the Northern California Cancer Center would be used to conduct research on cancer detection, treatment, and prevention.

This bill would specify that if the taxpayer's payments and credits reported on the PIT return fail to exceed the tax liability, the designation on the return would be treated as if no designation has been made.

This bill would require FTB to revise the tax return to include a designation space for the fund beginning with the first taxable year another voluntary contribution fund is removed. As discussed below in Implementation Considerations, it is assumed the fund would be first placed on the PIT return for the 2008 taxable year. The remainder of the This Bill discussion reflects this assumption.

Beginning with contributions made in 2010, this bill would require the fund to meet a minimum contribution amount for each calendar year thereafter. The "minimum contribution amount" for a calendar year is defined as \$250,000 for the first applicable calendar year or an amount indexed for inflation for subsequent calendar years. The law authorizing designations to this fund would be repealed if contributions made under this bill fail to meet the minimum contribution amount for a calendar year. Otherwise, this bill would allow the voluntary contribution designation to remain on the tax return for five years, unless a later enacted statute deletes or extends that date.

If the Fund first appeared on the PIT return for the 2008 taxable year, it would remain on the PIT return until January 1, 2013, in this case, the 2012 PIT return, unless a later enacted statute deletes or extends that date.

This bill would require FTB to do the following by September 1, 2010, and each subsequent calendar year that the Fund appears on the tax return:

- Determine the minimum contribution amount, as indexed for inflation, for the next calendar year.
- Notify the State Department of Public Health in writing of the minimum contribution amount required for the next calendar year.
- Determine if the amount of contributions estimated to be received during the current calendar year will equal or exceed the minimum contribution amount required for that calendar year.

FTB would be required to notify the State Controller of both the amount of money paid by taxpayers in excess of their tax liability and the amount of refund money they have contributed to the Fund.

This bill would require the State Controller to transfer money designated for this fund by taxpayers from the Personal Income Tax Fund to the Fund. Upon appropriation by the Legislature, the monies from this fund would be allocated as follows:

1. FTB and the Controller for reimbursement of costs incurred in administering the fund.
2. The State Department of Public Health for allocation to the Northern California Cancer Center.

IMPLEMENTATION CONSIDERATIONS

There are four other bills currently in the legislative process that would add new voluntary contributions to the tax forms. Department staff has indicated that there is enough space on the existing tax forms to accommodate all of them, if necessary. As a result, while implementing this bill would require some changes to existing tax forms and instructions and information systems, these changes could be accomplished during the normal annual update.

TECHNICAL CONSIDERATIONS

Amendment 1 has been provided to correct a technical error.

LEGISLATIVE HISTORY

AB 1812 (Arambula, 2008) would create the Fire Safety Fund for taxpayers to designate a contribution on their PIT return. AB 1812 is currently scheduled for hearing with the Assembly Revenue and Taxation Committee.

AB 1935 (Fuller, 2008) would add the California Ovarian Cancer Research Fund for taxpayers to designate a contribution on the PIT return. AB 1935 is currently scheduled for hearing with the Assembly Revenue and Taxation Committee.

AB 2291 (Mendoza, 2008) would add the Low Cost Spay-Neuter Fund for taxpayers to designate a contribution on the PIT return. AB 2291 is currently scheduled for hearing with the Assembly Revenue and Taxation Committee.

SB 1502 (Steinberg, 2008) would add the Amyotrophic Lateral Sclerosis (ALS) Fund for taxpayers to designate a contribution on the PIT return. AB 1502 is currently with the Assembly Revenue and Taxation Committee.

PROGRAM BACKGROUND

Eleven voluntary contribution funds appeared on the 2007 California personal income tax returns. Total contributions to these funds have varied from approximately \$3.4 million for the 1989 taxable year to approximately \$4.2 million² for the 2006 taxable year.

OTHER STATES' INFORMATION

Illinois, Massachusetts, Michigan, Minnesota, and New York allow for taxpayers to designate charitable contributions on the PIT return.

Illinois provides voluntary contribution designations for Breast, Cervical, Lung, and Ovarian Cancer Research.

New York provides designations for Breast and Prostate Cancer Research.

² Amount contributed through December 27, 2007.

Massachusetts, Michigan, and Minnesota do not allow for a Cancer Research voluntary contribution designation. The laws of these states were reviewed because their tax laws are similar to California's income tax laws.

FISCAL IMPACT

This bill would not significantly impact the department's costs.

ECONOMIC IMPACT

Revenue Estimate

Based on data and assumptions discussed below, the PIT revenue loss from this bill would be as follows:

Estimated Revenue Impact of AB 2518 Effective On or After January 1, 2009 Enactment Assumed After June 30, 2008			
Fiscal Year	2008-2009	2009-2010	2010-2011
Revenue Loss	No impact	-\$150,000	-\$150,000

Estimates assume the fund is officially designated for returns starting with the 2008 tax year and the minimum level of contributions (\$250,000) is achieved each year. This estimate does not consider the possible changes in employment, personal income, or gross state product that could result from this bill.

Revenue Discussion

The revenue impact of this bill would be determined by the amount of contributions to the Northern California Cancer Research Fund, and the subsequent itemized deduction of such charitable contribution.

For this estimate, the following assumptions are made:

1. The fund would be added to the 2008 return,
2. The minimum contribution amount (\$250,000) would be achieved each year, and
3. An itemized deduction would be allowed and claimed for each contribution.

By applying an average marginal tax rate of 6%, the estimated revenue loss of this bill would be \$15,000 annually ($\$250,000 \times 6\% = \$15,000$). Because contributions reported on the 2008 tax return are actually made during the 2009 calendar year, the revenue impact would not occur until fiscal year 2009/2010.

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FRANCHISE TAX BOARD'S
PROPOSED AMENDMENTS TO AB 2518
As Introduced February 21, 2008

AMENDMENT 1

Page 2, line 24, after 'basis.', strikeout, '('